

**REPORT OF THE AUDIT OF THE
FORMER SCOTT COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period
May 1, 2009 through April 15, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER SCOTT COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period
May 1, 2009 Through April 15, 2010**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2009 Taxes for the former Scott County Sheriff for the period May 1, 2009 through April 15, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Former Sheriff collected taxes of \$24,732,183 for the districts for 2009 taxes, retaining commissions of \$848,395 to operate the Former Sheriff's office. The Former Sheriff distributed taxes of \$23,664,968 to the districts for 2009 taxes. Taxes of \$199,990 are due to the districts from the Former Sheriff.

Report Comment:

- The Former Sheriff Should Have Implemented Control Procedures To Improve Financial Accountability Over Tax Collections

Deposits:

The Former Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable George Lusby, Scott County Judge/Executive

Honorable Bobby Hammons, Former Scott County Sheriff

Members of the Scott County Fiscal Court

Independent Auditor's Report

We have audited the former Scott County Sheriff's Settlement - 2009 Taxes for the period May 1, 2009 through April 15, 2010. This tax settlement is the responsibility of the former Scott County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Scott County Sheriff's taxes charged, credited, and paid for the period May 1, 2009 through April 15, 2010 in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated March 3, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of



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internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff Should Have Implemented Control Procedures To Improve Financial Accountability Over Tax Collections

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 3, 2011

SCOTT COUNTY
BOBBY HAMMONS, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period May 1, 2009 Through April 15, 2010

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 2,020,541	\$ 3,266,542	\$ 13,369,248	\$ 4,159,434
Tangible Personal Property	204,298	448,115	794,863	843,597
Increases Through Exonerations	9,294	15,025	61,496	18,998
Franchise Taxes	101,316	161,862	460,775	
Additional Billings	2,150	3,465	11,669	17,627
Limestone, Sand and Mineral Reserves	495	800	3,274	1,006
Penalties	8,657	13,992	56,414	18,081
Adjusted to Sheriff's Receipt	(506)	(818)	(3,349)	(1,029)
Gross Chargeable to Sheriff	<u>2,346,245</u>	<u>3,908,983</u>	<u>14,754,390</u>	<u>5,057,714</u>
<u>Credits</u>				
Exonerations	10,244	16,562	67,784	21,829
Discounts	37,999	63,791	240,890	86,670
Delinquents:				
Real Estate	62,463	100,981	413,293	127,007
Tangible Personal Property	1,480	2,054	5,933	6,485
Additional Bills	325	525	2,135	661
Current Year Uncollected Franchise	<u>8,727</u>	<u>13,842</u>	<u>43,469</u>	
Total Credits	<u>121,238</u>	<u>197,755</u>	<u>773,504</u>	<u>242,652</u>
Taxes Collected	2,225,007	3,711,228	13,980,886	4,815,062
Less: Commissions *	<u>94,563</u>	<u>157,727</u>	<u>391,465</u>	<u>204,640</u>
Taxes Due	2,130,444	3,553,501	13,589,421	4,610,422
Taxes Paid	2,111,852	3,518,939	13,467,613	4,566,564
Refunds (Current and Prior Year)	<u>1,712</u>	<u>2,722</u>	<u>10,920</u>	<u>3,476</u>
Due Districts or (Refund(s) Due Sheriff) as of Completion of Audit	<u>\$ 16,880</u>	<u>\$ 31,840</u>	<u>\$ 110,888</u>	<u>\$ 40,382</u>

**

The accompanying notes are an integral part of this financial statement.

SCOTT COUNTY
BOBBY HAMMONS, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES
For The Period May 1, 2009 Through April 15, 2010
(Continued)

* Commissions:

4.25% on	\$	10,751,297
2.8% on	\$	13,980,886

** Special Taxing Districts:

Library District	\$	16,662
Health District		6,183
Extension District		<u>8,995</u>

Due District	\$	<u><u>31,840</u></u>
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SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Scott County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Scott County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 13, 2009 through April 15, 2010.

Note 3. Interest Income

The Scott County Sheriff earned \$5,368 as interest income on 2009 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of March 3, 2011, the Sheriff owed \$338 in interest to the school district and \$205 in interest to his fee account.

Note 4. Sheriff's 10% Add-On Fee

The Scott County Sheriff collected \$70,025 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office. As of March 3, 2011, the Sheriff owed \$14,056 in 10% add-on fees to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George Lusby, Scott County Judge/Executive
Honorable Bobby Hammons, Former Scott County Sheriff
Members of the Scott County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Former Scott County Sheriff's Settlement - 2009 Taxes for the period May 1, 2009 through April 15, 2010, and have issued our report thereon dated March 3, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Former Scott County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Former Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Former Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Former Scott County Sheriff's Settlement - 2009 Taxes for the period May 1, 2009 through April 15, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Former Scott County Fiscal Court, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen
Auditor of Public Accounts

March 3, 2011

COMMENT AND RECOMMENDATION

SCOTT COUNTY
BOBBY HAMMONS, FORMER SHERIFF
COMMENT AND RECOMMENDATION

For The Period May 1, 2009 Through April 15, 2010

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Former Sheriff Should Have Implemented Control Procedures To Improve Financial Accountability Over Tax Collections

As a result of procedures conducted during the audit, it was determined that internal controls over tax collections and disbursements should have been implemented to improve financial accountability.

- The tax collectors (Sheriff, bookkeeper, and deputy) reconciled their collections per drawer with the tax collection report each day. They indicated their agreement with the tax collection report by initialing the section applicable of the report. Someone else should have recounted their tax collections in their presence and initial the applicable section of the tax collections report.
- At the end of each day, the bookkeeper compared bank deposits (collections) and total collected per daily tax collection report for agreement. She initialed the tax report to document her work. We recommend that someone else review her work. This review should have been documented by initialing the applicable part of the report.
- The bookkeeper collected and distributed franchise taxes. No one else compared bank deposits to paid franchise tax bills, reviewed detailed franchise tax reports, and reviewed the amounts placed on the monthly tax reports to make sure the franchise tax distribution is correct. We recommend that the Sheriff's bookkeeper continue to prepare the deposit slips for franchise tax collections. A different deputy should have compared paid franchise tax bills to bank deposits and prepared the detailed franchise tax reports. The bookkeeper should have reviewed these reports and initialed that this work is correct. The deputy should have reviewed the monthly tax reports to the districts, to make sure that the correct distribution was reported.
- The bookkeeper prepared the monthly tax reports to the taxing districts. These reports were reviewed by comparing checks written to the amounts listed on reports. We recommend that amounts listed on the monthly reports be compared to supporting documentation such as franchise collection reports, refund reports, and tax collection reports. These reports should also be reviewed for mathematical accuracy.
- The Sheriff should have assigned someone other than the bookkeeper to complete a "Determination of Fund Balance" for the tax account at the end of each month. The bookkeeper should have reviewed the deputy's work and signed off when it was complete and accurate.

Former Sheriff's Response: None.

